

# BUDGET GUIDE

Local governments exist to provide a wide range of basic services on which we all depend: police and fire protection, streets and sidewalks, water systems, garbage collection, and parks, just to name a few. The ability of a local government to provide this wide range of services rests on its financial decision-making. This document contains the City of Asheville's FY 2009-10 Adopted Budget, which is the financial plan that will guide City operations over the next year.

The City of Asheville budget document is designed to emphasize service areas instead of organizational units or funds. Five major service areas are identified in the budget document: (1) Public Safety; (2) Environment & Transportation; (3) Culture & Recreation; (4) Community Development; and (5) General Government.

The budget document is divided into the following sections:

**Introduction** - This section begins with the City Manager's Budget Message which highlights and explains the major budgetary issues facing the City of Asheville during the 2009-10 fiscal year. The Introduction also includes a description of the budget process and City organizational structure and a presentation of the City's financial policies.

**Budget Summary** - The Budget Summary section provides a detailed picture of the City's FY 2009-10 adopted annual operating budget, including information on total budget expenditures, revenues, and staffing. This section concludes with an estimate of fund balance for the City's general fund.

**Fund Summary** - The Fund Summary section segregates the expenditures and revenues by

fund. Detailed information is included for all City operating funds, with a focus on the City's largest fund - the general fund. This section also highlights the City's major revenue sources and summarizes the trends and assumptions that were used in developing the FY 2009-10 revenue estimates.

**Service Area Summaries** - The next five sections present budget data for the major service areas. Detailed budget information is included for the City departments and divisions associated with each service category. Departmental goals, objectives and performance measures are presented in this section.

**Capital Improvement Program/Debt Management** - The long-range Capital Improvement Program (CIP) describes planned capital improvement projects and funding sources for the next six fiscal years. This section also contains information on the City's annual debt service requirements.

**Supplemental Information** - The budget document concludes with a Supplemental Information section that includes a community profile, which provides demographic and economic information for the Asheville area. This section also contains a glossary of frequently used budget terms.

Please direct any comments or questions to:  
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# CITY MANAGER'S BUDGET MESSAGE

May 12, 2009

Honorable Mayor Bellamy and City Council Members,

I respectfully submit to you the proposed City of Asheville annual budget for the fiscal year beginning July 1, 2009 and ending June 30, 2010. The proposed budget that is presented to you today was prepared under extremely difficult circumstances as the country is in the midst of the worst economic downturn in at least thirty years. The current recession has presented the City of Asheville with a significant financial challenge as we attempt to provide for the continuation of existing city services while also continuing to move forward with new strategic initiatives that were launched in prior fiscal years. Our underlying principle in preparing the recommended budget was to balance the constraints of the current economic recession with the need to provide quality municipal services at the lowest possible cost to Asheville taxpayers.

To achieve this goal, the recommended budget relies on budget balancing strategies that include reducing expenditures wherever possible and re-engineering services to minimize costs. As a result, Asheville will be able to maintain a focus on core services, continued implementation of strategic programs, and support a stable and efficient workforce without increasing the property tax rate.

## **Background and Financial Trends**

For the City of Asheville, fiscal 2009-10 represents the second consecutive budget prepared under very challenging economic and financial conditions. The City was already beginning to feel the initial impacts of the recession last year at this time when we were preparing the current FY 2008-09 budget. Given the extended nature of the current financial crisis, before moving ahead to discuss the FY 2009-10 budget, it is helpful to begin by looking back at the previous year.

### ***Current FY 2008-09 Budget Update***

As you may recall, the process that lead up to the adoption of the current FY 2008-09 budget also proved to be very challenging for the City. The City of Asheville began the FY 2008-09 budget process with a significant shortfall in the General Fund. The recession had already begun to impact sales tax growth, and the City was experiencing inflationary pressures in a number of key areas, including health care, fuel, and construction materials. We successfully addressed the initial FY 2008-09 budget crunch by eliminating 10 full-time positions in the General Fund; reducing training budgets; eliminating the manager's contingency; reducing line items for professional services; and reducing capital spending.

Even with these initial budget reductions, we realized during the first quarter of FY 2008-09 that the economic downturn was going to be much more severe than originally anticipated. Monthly sales tax reports began to show declines that were unprecedented in nature. As a result, staff revised its FY 2008-09 revenue projections to reflect a likely \$1.0 million revenue shortfall in the General Fund. Staff was able to identify an additional \$1.0 million in budget savings strategies above and beyond the reductions that were already put in place at the start of the fiscal year, and this list of strategies was presented to City Council during the 1<sup>st</sup> Quarter Financial Report.

## CITY MANAGER'S BUDGET MESSAGE

These strategies included, among others, implementation of a selective hiring program, delay of capital equipment purchases, and further departmental line item reductions.

As we now enter the 4th quarter in the current fiscal year, staff's overall revenue projections that showed a \$1.0 million deficit in the General Fund appear to be on track. Sales tax revenues have declined even further than originally projected and now are 6.0% below FY 2007-08 levels, however other General Fund revenues, the property tax in particular, have performed better than expected.

### ***FY 2009-10 Budget Outlook***

In November 2008, staff presented City Council with its initial forecast for FY 2009-10 that projected a \$5.4 million budget in the General Fund. This initial budget gap was primarily driven by the slowdown in revenue growth, but inflationary pressures on the expenditure side of the budget also played a role, with major cost increases in health care and utilities among the biggest cost drivers. Against this backdrop, staff began working on the FY 2009-10 budget early in the fall of 2008, and it quickly became clear that the usual type of belt tightening strategies that had been employed in the past were not going to be sufficient given the magnitude of the current financial crisis. Staff embarked on a collaborative process of identifying cost savings, reducing expenditures and re-engineering processes with a goal of not reducing major core services to the public. Major actions taken to balance the FY 2009-10 budget include the following:

- **Eliminate merit and market-based pay increase for employees.** For the first time in at least ten years, City employees will not be receiving raises in the upcoming budget year. Elimination of the merit pay adjustments saved \$750,000 and suspension of the market based pay program saved an additional \$1.0 million.
- **Streamline operations.** Staff was able to eliminate 20 positions in the General Fund at a savings of \$1.0 million. The City offered an early retirement incentive program in the winter of 2008-09 that led to the retirement of 63 City staff. The early retirements, coupled with the high number of vacancies created due to the selective hiring program, allowed the City to eliminate the 20 General Fund positions while minimizing the number of employees that were displaced. Staff also reduced the initial departmental overtime requests in the General Fund by \$150,000. In the Golf Fund, Parks & Recreation staff reorganized operations at the Municipal Golf Course to reduce its staff by three positions and thereby eliminate the need for a General Fund subsidy.
- **Increase cost recovery from user fees.** In April, City Council approved the FY 2009-10 user fee package which included fee adjustments resulting in \$700,000 in additional General Fund revenue. Chief among these fee adjustments is the restoration of the household recycling fee at a 100% cost recovery level.

# CITY MANAGER'S BUDGET MESSAGE

## *Strategic Initiatives*

Over the last four years, Asheville City Council has led a strategic planning cycle that includes extensive opportunities for citizen input and feedback. In January 2009, Asheville City Council adopted five strategic priorities for Fiscal Year 2009-10:

**Affordable:** The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.

**Fiscal Responsibility:** The City of Asheville will create a stronger, more prosperous community with smart investments that accomplish real, lasting, tangible returns.

**Green:** Asheville will be the southeastern leader in clean energy and environmental sustainability while preserving and enhancing the city's natural beauty.

**Safe:** Asheville will be one of the safest and most secure communities when compared to similar cities.

**Sustainable:** Asheville will support a sustainable community and a sustainable city government through a strong commitment to infrastructure maintenance, capital improvements, long-term planning and fiscal responsibility.

Given the difficult fiscal constraints that the City is currently facing, limited resources were available in the upcoming budget year to launch new or enhanced programs related to City Council's strategic priorities. However, this recommended budget is designed to support our citizens' priorities and continue to enhance the quality of life in our community by funding the continuation of strategic programs that were launched in prior budget years. Attachment A to the Manager's Message provides detailed information about programs and initiatives funded in this year's budget that directly support the organization's strategic priorities.

The key elements of the 2009-2010 proposed budget are outlined below.

## **General Fund Highlights**

### **Revenues:**

- Based on estimates from the Buncombe County Tax Assessor, staff has budgeted 4.5% growth in property taxes for FY 2009-10. Approximately half of this growth is attributable to natural increases in the tax base from new construction. The rest of the growth in the tax base is the result of the Ridgely, Airport Road, and Biltmore Town Center annexations, which combined will generate approximately \$980,000 in property tax revenue. It should be noted that under the annexation/economic development agreement with the Biltmore Town Center, the City will refund all property tax revenue collected from this development in FY 2009-10.

## CITY MANAGER'S BUDGET MESSAGE

- Revenue from charges for services shows an \$834,000 or 8.0% increase. Most of this increase is the result of fee adjustments that were approved by City Council in April. \$400,000 in additional revenue will come from the reinstatement of the recycling fee at a 100% cost recovery level. Another sizeable gain in revenue, approximately \$127,000, will come from fee increases at the WNC Nature Center.
- As discussed earlier in the Budget Message, sales tax revenue has been severely impacted by the economic recession. The City has seen its sales tax revenue declined by 6.0% during the first eight months of FY 2008-09 compared to that same time period in FY 2007-08. Based on forecasts from the North Carolina League of Municipalities, staff has projected that this trend will continue for the remainder of FY 2008-09, and that sales tax revenue will show no growth in FY 2009-10. As a result, the sales tax budget for FY 2009-10 shows a decline of \$1.7 million or 9.7% compared to the FY 2008-09 budget.
- Intergovernmental revenue shows an increase of 4.8% in FY 2009-10, primarily due to an increase in revenue from state utility taxes. City staff completed an audit of address data maintained by Progress Energy in the current fiscal year and discovered a number of premises that were in the City but coded as out of the City by Progress. This audit resulted in a one-time back payment of \$300,000 and an ongoing annual gain of \$100,000 in the City's electricity utility tax revenue. In addition, the State increased the tax rate on telecommunications, satellite, and cable service providers in April 2008.

<b><u>Revenue Sources:</u></b>	<b><u>2008-09 Budget</u></b>	<b><u>2009-10 Proposed</u></b>	<b><u>Change From Prior Year in \$</u></b>	<b><u>in %</u></b>
Property Tax	43,437,175	45,413,548	1,976,373	4.5%
Intergovernmental	10,867,167	11,393,131	525,964	4.8%
Sales Taxes	17,592,167	15,880,273	(1,711,894)	-9.7%
Other Taxes	330,000	330,000	0	0.0%
Charges For Service	10,472,194	11,306,878	834,684	8.0%
Licenses & Permits	5,026,280	4,999,049	(27,231)	-0.5%
Investment Earnings	1,014,000	1,014,000	0	0.0%
Miscellaneous	304,000	320,093	16,093	5.3%
App. Fund Bal.	216,263	1,500,000	1,283,737	--
<b>Total Revenue</b>	<b><u>89,259,246</u></b>	<b><u>92,156,972</u></b>	<b><u>2,897,726</u></b>	<b><u>3.2%</u></b>

### Expenditures:

- The FY 2009-10 budget includes general fund expenditures that are 3.2% more than the FY 2008-09 budget.

## CITY MANAGER'S BUDGET MESSAGE

- Public Safety is the largest general fund service area, accounting for 42% of all general fund expenditures. Expenditures in this service area show a 4.6% increase in FY 2009-10. As with other service areas in the general fund that are personnel-intensive, a portion of this increase is due to higher employee health costs. The proposed budget also includes the addition of four positions in the Fire and Rescue Department for the expansion of the Asheville Suburban Fire District in the Haw Creek area. The budget also includes three new firefighters and two police officer positions to provide service to the Ridgefield and Airport Road annexation areas. The Fire and Rescue Department operating budget also includes \$100,000 in additional costs to pay the annexation contracts associated with these two annexations. The Police operating budget includes a \$54,000 increase in the City's payment to the County for its share of the Criminal Justice Information System (CJIS). The Fire and Rescue Department operating costs include an additional \$55,000 for the Code Red system contract, and a \$39,000 increase in the cost of the contract with Buncombe County for 911 service.
- Environment & Transportation is the second largest service area in the general fund, representing 17% of the FY 2009-10 general fund budget. The budget for this service area shows a 1.6% decrease. The \$693,000 decrease in the general fund subsidy to the transit services fund is the primary budgetary change that is impacting this service area. The Public Works Department budget shows a 3.8% increase and includes \$100,000 to enhance the downtown cleanliness program. The Public Works budget also includes a \$175,000 increase in the streetlighting budget to cover increased electricity expenses.
- The Culture & Recreation budget shows a 6.7% increase. Included in the Parks and Recreation budget is \$300,000 to fund a contract for maintenance of the new Pack Square Park. The City will receive \$150,000 in revenue from Buncombe County to assist with this new cost. The Parks and Recreation budget also shows a \$130,000 increase due to higher electricity costs for City Hall and other facilities.
- Expenditures in the General Government service area show a 4.0% increase. This is partly due to the inclusion of approximately \$150,000 in the Information Technology Services Departmental budget to fund the transition period from H.T.E. to MUNIS when the City is required to pay the maintenance agreements for both systems. The budget also includes \$160,000 to fund the costs of the upcoming fall 2009 City Council elections.
- Personnel costs, including both salaries and wages and fringe benefits constitute 63% of the FY 2009-10 general fund budget. The personnel budget includes no new funding for merit or market-based pay increases for City employees. The general fund personnel budget also reflects a net overall reduction of 5.88 FTE positions. Despite these reductions, the salary budget shows a slight 1.8% increase primarily due to the carryover impact of merit increases awarded in FY 2008-09 for a partial year (based on employee anniversary dates) for which the full cost impact will take place in FY 2009-10. The personnel budget also includes a 15% increase in the City's contribution toward employee health care expenses. For the general fund, this increase totaled approximately \$870,000.

## CITY MANAGER'S BUDGET MESSAGE

- General fund debt service shows a net decrease of approximately \$250,000. This decrease is the result of the City paying off an equipment financing debt issuance from 2004 in the current fiscal year and a \$100,000 decrease in the City's general obligation bond debt amount. The proposed budget does include the issuance of approximately \$2.0 million in new debt in FY 2009-10 to fund two annexation related sewer projects, replacement of one auto loader refuse truck, replacement of the irrigation system at the Municipal Golf Course, and improvements to the Walton Street pool.
- \$2.9 million is budgeted for the direct purchase of capital in FY 2009-10, which represents a 3.2% increase over the current year. However, capital funding remains well below the funding levels that were achieved in the two prior budget years.
- Interfund transfers are budgeted to decrease by over \$1.0 million in FY 2009-10. Increased federal funding for transit allowed the City to reduce the general fund subsidy to the transit fund by \$693,000. Staff was also able to eliminate the \$75,000 general subsidy to the golf fund by reorganizing and streamlining operations at the golf course. Finally, due to budget constraints in FY 2009-10, the general fund subsidy to the housing trust fund is reduced by \$300,000.

<b><u>Expense Category:</u></b>	<b><u>2008-09 Budget</u></b>	<b><u>2009-10 Proposed</u></b>	<b><u>Change From Prior Year in \$</u></b>	<b><u>in %</u></b>
Salaries & Wages	42,242,338	42,983,462	741,124	1.75%
Fringe Benefits	13,734,183	14,880,912	1,146,729	8.35%
Operating Costs	21,899,165	24,123,454	2,224,289	10.16%
Interfund Transfers	2,802,562	1,748,872	(1,053,690)	-37.60%
Debt Service	5,709,822	5,458,272	(251,550)	-4.41%
Capital Outlay	<u>2,871,176</u>	<u>2,962,000</u>	<u>90,824</u>	<u>3.16%</u>
<b>Total Expenditures</b>	89,259,246	92,156,972	2,897,726	3.25%

### **Fund Balance Analysis**

At the end of FY 2007-08, available fund balance in the City's general fund equaled 19.3% of year-end 2007-08 expenses. City policy prescribes a minimum fund balance level of 15%. Based on current year-end revenue and expenditure estimates for the general fund for FY 2008-09, staff is projecting that available fund balance will equal to 19.8% of estimated year-end expenditures. In order to balance the FY 2009-10 general fund budget, staff has included a \$1.5 million appropriation from fund balance. This appropriation will lower the available fund balance percentage to 17.6% at the end of FY 2009-10. Given the severity of the current economic recession and no clear indication when growth may return to normal levels, coupled with the fact that Asheville faces some long-term structural budget issues, such as the inability to charge differential water rates and aging infrastructure, staff is recommending that no further appropriation from fund balance be made prior to adoption of the FY 2009-10 budget.

# CITY MANAGER'S BUDGET MESSAGE

## *Other Funds*

### *Water Resources Fund*

- The FY 2009-10 budget includes a 4% increase in water rates and the capital improvement fees. These rate increases, along with some other fee adjustments will generate approximately \$1.8 million in additional revenue for the Water Fund.
- The Capital Outlay budget includes \$5.6 million for capital improvement projects, \$701,000 for rolling stock replacement, and \$681,000 for small capital equipment.
- The debt service budget for FY 2009-10, which includes payments on the \$40 million in revenue bonds issued in FY 2007-08 for capital improvements, is approximately 23% of the total budget.
- Operating costs are up 15% primarily due to increases in electricity rates and increased costs for materials, including the chemicals used in water treatment.

### *Parking Services Fund*

- The current recession has slowed the growth in revenue from the parking garages. As a result, the FY 2009-10 budget for garage revenue shows a \$300,000 decrease compared to the current fiscal year.
- The FY 2009-10 budget includes \$500,000 for a possible debt service payment on the Biltmore Avenue parking deck.
- The Parking Fund budget also includes \$57,240 to fund signage for the Wayfinding program.
- The 2009-10 budget continues the \$248,116 transfer to the Transit Services Fund.
- Approximately \$206,000 in the FY 2009-10 Parking Fund operating budget is set aside to go to fund balance for future parking deck construction costs.

### *Transit Services Fund*

- The City will receive additional federal funding in both FY 2008-09 and FY 2009-10. This additional funding is not shown in the FY 2008-09 budget, so actual grant revenue will exceed budget in the current year. This additional federal revenue will allow the City to reduce the actual general fund subsidy in the current year, and budget a lower subsidy in FY 2009-10. At this point, it is not certain if the City will receive this higher level of federal support beyond FY 2009-10.



## CITY MANAGER'S BUDGET MESSAGE

- As mentioned above, the general fund subsidy to the transit services fund will be reduced in the current year. The actual subsidy in the current year is expected to be \$500,000 less than budget. For FY 2009-10, the general fund subsidy is budgeted at \$872,831. It should be noted that the general fund subsidy will likely increase substantially after FY 2009-10 as the federal funding returns to its previous lower level.
- Operating costs show a \$211,000 increase primarily due to an increase in the budget for fuel and maintenance of the transit fleet, as well as increased costs associated with servicing the Black Mountain & Weaverville routes. The costs associated with these two routes are fully reimbursed by grant funding.

### *Stormwater Fund*

- The Utility Billing Specialist position is deleted from the budget. In addition, two positions in the Stormwater Fund have been assigned to work on capital and grant funded projects during FY 2009-10, and their salaries will be charged to those projects.
- Otherwise, the Stormwater budget reflects a continuation of existing programs & services.

### *Civic Center Fund*

- For the FY 2009-10 budget, staff is proposing to discontinue public skating and hockey programs at the Civic Center. Elimination of these programs will reduce revenue by approximately \$109,000, but the offsetting cost reductions will be \$156,000; resulting in a positive net financial impact of almost \$50,000. In addition, the current ice chiller needs major repair work, which could cost up to \$150,000 in future years. It should be noted that the Civic Center Commission voted in support of staff's recommendation.
- A part-time Office Assistant position is eliminated from the budget.
- By eliminating the part-time position and the ice programs, staff was able to keep the FY 2009-10 general fund subsidy to the Civic Center at a level similar to the FY 2008-09 subsidy.

### *Festivals Fund*

- The budget for the Festivals Fund shows a 30% decrease in FY 2009-10. In an effort to lower festival-related expenses, the overall footprint for the Bele Chere festival will be reduced in 2009. In addition, there will be no ticketed event at the 2009 Bele Chere.
- The recession is also expected to impact Festival Fund revenues in FY 2009-10. Attendance is expected to be down, and staff is also expecting to receive less sponsorship revenue.

## CITY MANAGER'S BUDGET MESSAGE

- A general fund subsidy of \$184,726 is included to support the costs of the Festivals staff.

### *Golf*

- Parks staff completed a restructuring of the Golf Course operations that resulted in the elimination of three FTE positions: a Laborer, a Tradesworker, and the Snack Bar Manager. By eliminating these positions and streamlining operations in other areas, staff was able to balance the FY 2009-10 golf fund budget with no subsidy from the general fund.

### **Conclusion**

Each year, the City of Asheville's Finance Department coordinates the city's budget process, and I want to thank the staff in this department and recognize, with sincere appreciation, the assistance and cooperation of our department directors and employees for their many hours of hard work and contributions to this budget. I want to specifically recognize the efforts of Chief Finance Officer Ben Durant and the staff in the Budget and Research Division including Tony McDowell, Sandy Ryland and Alina Law.

I also want to express my appreciation to you, our Mayor and City Council members, for providing the policy direction and feedback necessary to prepare the proposed budget. Local governments around the world are finding their budgets in the throes of a major recession, and these challenging economic times are requiring difficult decisions in order to preserve a balanced budget. I appreciate the City Council's support of the progressive series of steps our organization has taken to minimize the impact of financial conditions on our workforce and our community.

The more stability the City of Asheville brings to its annual operating budget, the more influence we can have on our economic future and the viability of our community. A stable budget conveys a predictable and affordable tax rate, a dependable workforce and reliable core services, which in turn fosters a favorable environment for economic investment and quality of life. I am proud to say I believe the proposed budget balances these important considerations in the midst of tough economic times, and that the City of Asheville is positioned to be a steady leader in economic recovery throughout 2009-2010.

I also look forward to the upcoming budget discussions with you and the citizens of Asheville as we move forward with this the 2009-10 financial plan.

Sincerely,

Gary W. Jackson  
City Manager

# CITY MANAGER'S BUDGET MESSAGE

## ATTACHMENT A

### Strategic Initiatives

***Affordable: The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.***

- The FY 2009-10 budget recommends \$300,000 in General Fund support for the Housing Trust Fund, a dedicated low-interest loan pool set aside for the development of affordable housing.

***Fiscal Responsibility: The City of Asheville will create a stronger, more prosperous community with smart investments that accomplish real, lasting, tangible returns.***

- The City of Asheville remained committed to holding the line on property taxes in FY 2009-10 to support our citizen's ability to affordably live and work in the community. No property tax increase is recommended in this budget.

***Green: Asheville will be the southeastern leader in clean energy and environmental sustainability while preserving and enhancing the city's natural beauty.***

- The proposed FY 2009-10 budget includes continued funding for the sustainability/energy program.
- FY 2009-10 will continue the City's commitment to an alternative fuels program for its fleet, maintaining a switch to ethanol and biodiesel in order to reduce vehicle emissions and petroleum consumption.
- The FY 2009-10 General Fund CIP includes \$752,000 and the Water Resources CIP includes \$701,000 in funding for vehicle replacement, which will also have a substantial positive impact on the City's emissions production and petroleum consumption.
- The FY 2009-10 Public Works budget includes an additional \$100,000 to enhance downtown cleanliness efforts.

***Safe: Asheville will be one of the safest and most secure communities when compared to similar cities.***

- On July 1st, 2009, there will be a transition of a portion of the Haw Creek Fire Department county fire district to the City of Asheville Fire Department. In order to service this expansion of the Asheville Suburban Fire District, two additional Fire Engineers and two additional Firefighters are added to the FY 2009-10 budget at a cost of approximately \$150,000. The City will receive additional revenue from fire district and sales taxes to offset the cost of servicing this area.
- In FY 2008-09, the City of Asheville implemented an improved Citizens' Emergency Notification System. The Code Red System allows citizens to register for emergency notification via cellular phone in addition to traditional home telephone notifications. \$55,000 is included in the FY 2009-10 Fire Department budget to fund continued vendor support for this system.

## CITY MANAGER'S BUDGET MESSAGE

- The City of Asheville will continue its commitment to improve security systems at city facilities with \$125,000 budgeted for related capital improvements.
- The FY 2009-10 budget also includes the addition of three Firefighters and two Police Officers to service the Airport Road and Ridgefield annexation areas. The Fire Department operating budget also includes \$100,000 in additional costs to pay the annexation contracts associated with these two annexations.

***Sustainable: Asheville will support a sustainable community and a sustainable city government through a strong commitment to infrastructure maintenance, capital improvements, long-term planning and fiscal responsibility.***

- The FY 2009-10 Parks & Recreation budget includes \$300,000 to contract for maintenance of the new Pack Square Park once it is completed. As a part of the City's partnership with Buncombe County on this project, the County will be reimbursing the City for \$150,000 of these costs.
- The Parks & Recreation CIP provides \$500,000 to fund critical infrastructure repair projects at Walton Street pool and the Municipal Golf Course. \$300,000 is budgeted to complete the replacement of the irrigation system at the Municipal Golf Course. Replacement of the irrigation system on the front nine at the golf course was funded in FY 2007-08. This additional funding will allow for replacement of the system on the back nine, which currently does not meet state regulations for backflow prevention. Completion of these improvements will keep the golf course in compliance with water protection regulations. \$200,000 is budgeted for improvements at the Walton Street pool. The current pool has major structural problems, including water leakage which is costing the City money.
- The FY 2007-08 CIP included \$2.0 million to replace the City's enterprise software system (H.T.E.). This project has begun implementation, and is currently within budget and on track to hit the Phase I go-live date of January 2010. Recent milestones achieved include a successful hardware procurement and implementation. The FY 2009-10 budget includes approximately \$150,000 in additional operating expenses required during the transition period from H.T.E. to MUNIS in order to pay the maintenance agreements for both systems.
- The FY 2009-10 budget continues the City's commitment to repair aging infrastructure by continuing to provide \$250,000 for capital improvements at the Civic Center and \$952,300 for street and sidewalk maintenance.
- The City of Asheville continues its partnership with the Tourism Development Authority in FY 2009-10 to implement a community-wide wayfinding program. The Parking operating fund includes a \$57,240 allocation to fund wayfinding and improved directional signage in city parking decks.
- The proposed CIP includes \$1.87 million to fund sewer projects for the Sardis Road and Airport Road annexation areas. Council budgeted \$180,000 in FY 2007-08 for initial design work on the Sardis Road sewer. To complete installation of the sewer, the FY 2009-10 includes an additional \$1,620,000 in funding. The full cost of the Airport Road sewer project, including both design and installation, is budgeted at \$250,000.

# ORGANIZATIONAL STRUCTURE

## **Fund Accounting**

The accounts of the City of Asheville are organized and operated on the basis of funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds included in the City of Asheville adopted budget can be grouped into two types: governmental funds and proprietary funds. Governmental funds are those through which most functions of the City are financed. Proprietary funds are used to account for City activities that are similar to those often found in the private sector. Specific City of Asheville funds include:

## **General Fund**

The General Fund is a governmental fund that encompasses most of the City's day-to-day operations, such as police, fire, refuse collection, street maintenance, and parks and recreation. General Fund operations are primarily funded through property tax dollars, but are also supported through sales tax revenue, charges for service, license & permit fees, and investment earnings.

## **Enterprise Funds**

Enterprise Funds are proprietary funds used to account for activities that operate like private businesses, where expenses are primarily financed by revenues derived from user charges. For the City of Asheville, these funds are:

- Transit Services Fund
- Parking Services Fund
- Water Resources Fund
- Civic Center Fund
- Festivals Fund
- Stormwater Utility Fund
- Golf Fund

## **Capital Funds**

Capital Funds are used to account for capital replacements and improvements. Funding is provided from operations, federal or state grants, or long-term financing and may be annual appropriations or project appropriations. Appropriations are approved through the Capital Improvement Plan process. Capital Funds include:

- General Capital Projects Fund
- Street and Sidewalk Improvement Fund
- Community Development Fund
- Water Major Capital Improvement Fund
- HOME Fund
- Civic Center Capital Fund
- Parking Services Capital Fund
- Transit Services Capital Fund

## **How Funds Interact**

City funds interact in a variety of ways. Expenses that occur in one fund are frequently incurred to benefit another fund. When this occurs, the benefiting fund may reimburse the fund providing the goods and services. Examples of such transactions include general government services provided by the General Fund to the Water Resources Fund. Interfund transfers may also result from the exchange of resources between funds to cover operating and capital expenses. For example, the FY 2009-10 budget includes a transfer from the General Fund to the Civic Center Fund to support operations. Transfers between funds result in the budgeting of dollars in both participating funds.

## **Departments & Divisions**

Departments are organizational units that provide a major type of public service, such as fire or police protection. Departments are usually subdivided into one or more divisions. For instance, the police department consists of four divisions: administration, criminal investigations, support bureau, and patrol bureau. Often within each division there are smaller units responsible for performing specific activities. For example, within the police patrol division is the K-9 patrol team and the anti-crime team.

A City organizational chart is presented on the following page.

# ORGANIZATIONAL STRUCTURE

See Separate Organizational Chart in Excel

# BUDGET PROCESS

## **Budget Preparation Overview**

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2009-10 Budget Calendar is displayed on page 17.

## **Financial Forecasting**

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

## **City Council Strategic Planning**

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. The Council's directives set the tone for the development of the annual budget.

## **Departmental Budget Development**

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their "value" and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and proposed funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated, reduced or scaled back. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

# BUDGET PROCESS

## **City Manager Review**

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide proposed operating budget is developed.

## **Budget Adoption**

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

## **Budget Amendments & Revisions**

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a departmental budget not affecting the total departmental appropriation or fund total. Budget revisions do not require City Council approval.

## **Basis of Budgeting**

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.



## FY 2009-10 BUDGET SCHEDULE

<u>Event</u>	<u>Date</u>
Operating Budget Process Begins (Budget Work Papers Provided to Departments)	<i>January 5</i>
Departmental FY 2009-10 Budgets Submitted to Finance Department	<i>February 2</i>
Technical Budget Reviews with Departments	<i>February 9 – 20</i>
2 <sup>nd</sup> Quarter Financial Report & FY 2009-10 Budget Update	<i>February 24</i>
City Manager & Management Team Budget Preparation	<i>February 25 – March 23</i>
Finance Committee Reviews Fees & Charges Requests	<i>February – mid March</i>
FY 2009-10 Budget Update/Fees & Charges presented to City Council	<i>March 24</i>
Budget Finalization	<i>March 25 - April 24</i>
FY 2009-10 Budget Preview/Adoption of FY 2009-10 Fees & Charges	<i>April 14</i>
<b>Formal Budget Presentation/3rd Quarter Financial Report/Set Public Hearing</b>	<b><i>May 12</i></b>
Budget Worksession (Special Meeting if needed)	<i>May 19</i>
Budget Worksession	<i>May 26</i>
Budget Worksession/Public Hearing	<i>June 9</i>
Budget Adoption	<i>June 23</i>

# FINANCIAL POLICIES

## **A. Revenue Policy**

1. As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
  - a) Assessed valuation shall be estimated based on historical trends and growth patterns in a conservative manner.
  - b) The estimated rate of collection of the levy shall not exceed the rate of the preceding fiscal year.
  - c) The tax rate shall be set each year based on the cost of providing general government services. Rates shall be adjusted periodically, but shall not result in revenues exceeding a 5% annual growth in Ad Valorem Tax revenues excluding growth in valuation or an increased collection rate.
2. The City sets fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service:
  - a) To the extent possible, user charges for water, sewer and downtown parking will be sufficient to finance all operating, capital and debt service costs for said services.
  - b) The Civic Center will operate in a manner such that 90% of budgeted operating costs will be financed through user charges. A profit and loss statement will be prepared for each event for evaluation of cost recovery.
  - c) Recreational programs will be funded from user charges for all programs for which it is practical to charge. User charges should represent at least 10% of the total recreational budget.
  - d) Building and code enforcement activities will be funded through user charges in the form of building permits, inspections, and plan review fees. These fees should represent 100% of operating costs.

- e) To the extent practical, any general city service, which is of a higher level or benefits specific recipients, shall be supported by user fees designed to recover costs from such recipients.
  - f) Where user fees are based on cost recovery, said costs shall be reviewed annually and fees adjusted as practicable.

3. The City will project revenues for five years and will update the projections annually.

## **B. Operating Budget Policy**

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated shall not exceed an amount that management can reasonably expect to save during the year.
2. Debt or bond financing will not be used to finance current expenditures.
3. The City will begin to develop a program to integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. The City will establish a risk management program to provide for protection against loss and a reduction in exposure to liability. The City will investigate the establishment of a self-insurance program to provide for protection against major loss in excess of an appropriate amount with excess coverage being purchased to cover catastrophic loss. The establishment of a comprehensive safety program will also be investigated to minimize the City's exposure to liability and thereby reduce the number of claims filed.
6. The City will maintain a capital reserve fund to replace all vehicles and other capital outlay items with a life of more than one year and a value of \$7,500 or more. Revenue equivalent to 7.0 cents on the tax rate and 60% of one-half cent sales tax will be appropriated annually to this fund.

# FINANCIAL POLICIES

7. The City will maintain a street & sidewalk reserve fund to provide for upgrading the City's street, sidewalk, and storm drainage systems. Revenues equivalent to 4.1 cents on the tax rate and Powell Bill revenues will be appropriated annually to this reserve.
8. It is the City's policy not to fund requests from outside organizations which provide social services or services which are County-wide in scope.
9. It is the City's policy that all general fund balance exceeding 15% of expenditures shall be earmarked for capital reserve purposes.
10. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.
3. Full disclosure will be provided in the financial statements and bond representations.
4. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
5. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
6. The City's annual financial report will be prepared according to the standards necessary to obtain the Certificate of Achievement of Excellence in Financial Reporting from GFOA and submitted each year for the recognition.

## **C. Capital Improvement Policy**

1. The City will update and readopt annually a six-year capital improvement program which details each capital project, the estimated cost, description and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," to ensure that the capital items requested meet the future growth needs for the City.
3. Operating expenditures will be used to maintain the Capital Improvements Program and provide all salaries, operating costs, and small capital outlay required.

## **D. Accounting Policy**

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.

7. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

## **E. Debt Policy**

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Interest, operating, and/or maintenance expenses will be capitalized only for facilities of enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

## FINANCIAL POLICIES

### F. Reserve Policy

1. The City will maintain an unallocated fund balance to be used for unanticipated emergencies of 15% of the general operating budget (excluding capital outlay). These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, and assist in maintaining an investment-grade bond rating.
2. The City will establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature or to meet unexpected increases in service delivery costs. This reserve will be budgeted at 1.5% of the general fund revenues estimated for that fiscal year.
3. The City will maintain a two-to-one ratio of total current assets over total current liabilities in all enterprise funds.